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CAFTA-DR Helps Dominican Republic's Food Processing Industry

By Fradbelin Escarraman

The food processing sector in the Dominican Republic has been expanding rapidly, with great potential for U.S. companies that already supply about half of its annual $400 million worth of ingredient imports. A healthy economic picture, particularly in the tourist and HRI (hotel, restaurant, and institutional) sectors, is coalescing with the new CAFTA-DR (Central America Free Trade Agreement-Dominican Republic) to provide the conditions for tremendous sector growth.

As evidenced by their market share, U.S. suppliers are regarded as reliable sources in terms of volume, standards, and quality. The largest competitors for the United States outside the Caribbean region include Spain, the Netherlands, Venezuela, Canada, and Chile, with Central and South American countries also vying for sales.

Local Products Still Protected, Expensive

Despite being a food deficit country, the Dominican Republic uses nontariff barriers such as import permits and domestic price quotas to protect its producers of dairy and meat products, beans, rice, sugar, chicken and pork. Consequently, these products are priced significantly higher than on the world market. CAFTA-DR sets tariff-rate quota regimes for these products to phase out over 5-20 years.

To reduce cost of domestic inputs, some processors are vertically integrating their operations by producing their own products, or avoiding middlemen. In addition to buying products, they also may provide financing and technical assistance to producers. The largest producers have direct distribution systems to end consumers.

Food Processors Concentrated in Urban Areas

Of 500-plus food processors, 40 percent are located in the capital Santo Domingo, with 14 percent in Santiago. The remaining processors are scattered throughout the country. The fastest growing segments in 2005 based on sales were dairy (22.3 percent), beer (16.4 percent), edible oils (14.9 percent), and pasta (10 percent).

Fundamentals in Place for Growth

With 9.1 million residents, half of them under 25 years old, the Dominican Republic is the largest democratic country in the Caribbean. Per capita income was estimated at $3,200 in 2005. Gross domestic product growth was estimated at 9 percent in 2005 and forecast at 8 percent in 2006.

Local consumers and the HRI sector are contributing to the demand for high quality products. As the economy improves, imports of consumer-oriented products have grown, raising the bar for quality domestic production. As a massive rural to urban migration continues and more women join the workforce, demand for consumer-oriented products will increase.

The country's food processing industry has made a big effort to improve standards and efficiency so it can compete domestically and internationally. Businesses are restructuring and investing in new technology to modernize production, distribution, marketing, and information systems.

The prospect of CAFTA-DR is also bringing in more investment money as countries outside the region invest in food processing plants to take advantage of the agreement and the strategic position of the Dominican Republic.

Why CAFTA-DR Is a Good Deal for U.S. Suppliers

The United States exported a total $567 million worth of agricultural, forestry, and seafood products to the Dominican Republic in 2005. CAFTA-DR promises improved market access for U.S. suppliers and investment opportunities to further enhance the food processing sector.

Currently, the Central American countries and the Dominican Republic are allowed to charge very high tariffs, limited only by WTO (World Trade Organization) commitments. The average allowed tariff on agricultural products is 40 percent in the Dominican Republic. Applied tariffs may be lower on specific products, but in many cases these tariffs still restrict U.S. exports. Moreover, there had been no assurance the Central American countries would not raise tariffs to their WTO limits.

In contrast, under the CBI (Caribbean Basin Initiative), of which the Dominican Republic is a member, the United States allows over 99 percent of imports from members to enter the United States duty-free, effectively preserving tariff protection only for out-of-quota imports of products under U.S. tariff-rate quota programs.

A primary U.S. objective in the CAFTA-DR negotiations was to change the "one-way-street" of duty-free access currently enjoyed by CAFTA-DR countries on most of their exports to a "two-way-street."

Personal Touch Welcome

While most processors are also importers, many suppliers have local representatives who maintain relationships with processors. U.S. companies should be familiar with the market and know their business contacts well before reaching a legal agreement. Information about the market, key contacts, local laws, and business practices is available through the FAS Office of Agricultural Affairs at the U.S. Embassy in Santo Domingo.

Products that promise more growth include flour, pasta, and bakery goods. Ingredients used in dairy products, edible oils, beer, juices, and soft drinks also show strong potential. Though not present in significant quantities yet and protected by import permits, future sales potential exists for chicken products, turkey meat, pork trimmings and fat, and rice. ■

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